



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 28, 2006

H.R. 5835 **Veterans Identity and Credit Security Act of 2006**

*As ordered reported by the House Committee on Veterans' Affairs
on July 20, 2006*

SUMMARY

H.R. 5835 would create a new Office of the Under Secretary for Information Services within the Department of Veterans Affairs (VA). The bill also would require VA to notify affected individuals when sensitive, personal information held by VA is lost, stolen, or otherwise compromised. Additionally, if the Secretary of VA determines there is a risk that the compromised information could be used in a criminal manner, VA would be required to provide services to alleviate any loss those individuals might suffer. Furthermore, H.R. 5835 would require contractors to pay damages to VA if the compromised information was under the contractors' control and would allow VA to spend those receipts without further appropriation action. Finally, the bill would allow VA to provide scholarships and pay school debts for individuals pursuing a doctoral degree in computer science or related fields who agree to work for VA.

CBO estimates that implementing H.R. 5835 would cost \$5 million in 2007 and about \$50 million over the 2007-2011 period, assuming appropriation of the estimated amounts. However, if VA were to experience another data breach similar to the recent incident involving personal information on 17 million individuals, the cost could be as much as \$1 billion. Under the bill, VA would be authorized to collect and spend certain receipts, but CBO estimates that the net effect of those receipts on the federal budget would be insignificant.

H.R. 5835 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5835 is shown in the following table. The costs of this legislation fall within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars					
	2006	2007	2008	2009	2010	2011
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Credit-Protection Services						
Estimated Authorization Level	0	9	10	10	10	11
Estimated Outlays	0	5	9	10	10	11
Scholarships and Debt Reduction						
Estimated Authorization Level	0	*	1	1	1	1
Estimated Outlays	0	*	1	1	1	1
Total Changes in Spending Under H.R. 5835						
Estimated Authorization Level	0	9	11	11	11	12
Estimated Outlays	0	5	10	11	11	12

NOTE: * = less than \$500,000.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that the bill will be enacted near the start of fiscal year 2007 and that the estimated amounts will be appropriated for each year.

Spending Subject to Appropriation

Assuming appropriation of the estimated amounts, implementing H.R. 5835 would cost \$5 million in 2007 and about \$50 million over the 2007-2011 period, CBO estimates. This spending would be for credit-protection services for certain veterans and for scholarships and debt-reduction grants provided to current and future VA employees.

Credit-Protection Services. H.R. 4835 would require VA to notify individuals and provide them with certain services when their sensitive, personal information is lost, stolen, or otherwise compromised, while in VA's possession. All of those services would be provided at no cost to those individuals. Initially, VA would have to:

- Notify all affected individuals of the lost or compromised data,
- Inform those individuals of the steps VA is taking to remedy the problem,
- Explain to each individual the advantages and disadvantages of requesting a fraud alert and a credit security freeze from the major credit-reporting agencies, and
- Contract with the credit-reporting agencies to implement a security freeze of the file of each affected individual who requests it.

If the Secretary of VA determines there is a reasonable risk that the compromised data could be misused, the department would have to provide an additional notification detailing the availability of credit-protection services. Under the bill, VA would contract with one of the principal credit-reporting agencies to provide affected individuals credit-protection services that include:

- A credit report every three months,
- Services to assist in rehabilitating the individual's credit in the event of identity theft, and
- Identity theft insurance of up to \$30,000 that would cover the damages of identity theft, including travel costs, legal fees, and lost wages.

Based on publicly available information on the recent loss of personal information by government agencies (including VA), CBO estimates that VA could be expected to experience an average of three incidents a year in which sensitive, personal information is compromised in some manner. Excluding the incident that occurred on May 3, 2006, when a computer with information on more than 17 million people was stolen, the average number of people affected by a data breach has been about 50,000. Based on information from VA, CBO expects that the cost of notifying individuals in the event of such data breaches would generally be less than \$500,000 a year.

Using information from a Federal Trade Commission survey report on identity theft, CBO estimates that 10 percent to 15 percent of those individuals who have their personal information compromised might have problems with identity theft and experience a loss. CBO estimates that, in 2007, such a loss would, on average, amount to about \$450. Thus, CBO estimates that requiring VA to provide insurance and fraud-resolution services to individuals who have had their personal information compromised would cost about \$10 million a year, on average, assuming appropriation of the necessary amounts. CBO

projects that outlays would be \$5 million in 2007 and about \$45 million over the 2007-2011 period. (If VA were to experience another data breach where information for more than 17 million people were to be compromised, the cost for such an incident could be as high as \$1 billion.)

Scholarship and Debt Reduction. H.R. 5835 also would establish programs that would improve VA's ability to recruit employees with skills in information security. The bill would allow VA to pay tuition, fees, and a monthly stipend of \$1,500 for individuals who are pursuing a doctoral degree in computer science or a related field. Under the bill, VA could provide the assistance for up to five years if those individuals agreed to work at VA for twice as long as they received such assistance. VA could offer up to five new scholarships each year and could provide up to \$50,000 a year or \$200,000 per scholarship for each individual.

In addition, H.R. 5835 would allow VA to establish an education debt-reduction program as a recruitment tool to attract individuals who completed a doctoral program in computer science or a related field within the previous five years. The bill would allow VA to pay up to \$16,500 a year for five years to eligible employees for repayment of loans related to their doctoral degree. VA would be authorized to make such payments to an additional five individuals each year.

Based on the amounts specified in the bill, CBO estimates that implementing these provisions would cost less than \$500,000 in 2007 and about \$4 million over the 2007-2011 period, assuming appropriation of the necessary amounts.

Direct Spending

Section 4 of the bill would require that VA contractors who have access to sensitive personal information pay damages to VA in the event the personal data is compromised. Damages paid to VA would be credited to the appropriation account under which the contract was paid and would be available without fiscal year limitation to pay for credit-protection services. Because VA would be able to spend the funds collected under this section, CBO estimates that enacting the bill would have no significant net effect on direct spending in any year over the 2007-2016 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5835 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs: Sam Papenfuss

Impact on State, Local, and Tribal Governments: Melissa Merrell

Impact on the Private Sector: Allison Percy

ESTIMATE APPROVED BY:

Robert A. Sunshine

Assistant Director for Budget Analysis